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National Tea Co.

ANNUAL REPORT 1939

ORP. FILE

NATIONAL TEA CO.

★ MAIN OFFICE & WAREHOUSE

○ BRANCH OFFICES & WAREHOUSES

● CITIES IN WHICH STORES ARE OPERATED

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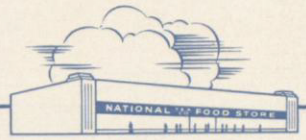


1899 1939

ANNUAL REPORT TO THE
STOCKHOLDERS FOR YEAR
ENDING DECEMBER 31, 1939

NATIONAL TEA CO. FOOD STORE
FRESH FRUITS VEGETABLES
NATIONAL TEA CO. FOOD S
FRUITS VEGETABLES
RECEIVED DAILY

Annual Report to the Stockholders

TO OUR STOCKHOLDERS:

The improvement taking place in your business is not readily apparent from the annual report on the following pages. Early in 1939, as explained in our letter a year ago, we quit operating the food department of a large downtown department store, on account of continuing losses in that part of the business. Eliminating that volume for the last three years gives a better picture of our sales, which by quarters were as follows:

	1937	1938	1939
1st quarter	$15,237,534	$13,008,207	$12,473,896
2nd quarter	13,974,720	12,486,684	12,563,522
3rd quarter	17,844,582	15,714,712	17,123,566
4th quarter	13,364,255	12,892,324	14,561,534
Year	$60,421,091	$54,101,927	$56,722,518

The increase for the year 1939 over 1938 was really 4.8%, instead of the 2.3% shown by the report.

This progress in sales may also be shown in terms of average sales per week per location:

	1937	1938	1939
1st quarter	$1,036	$941	$ 944
2nd quarter	945	934	952
3rd quarter	901	890	989
4th quarter	918	976	1,129
Year	$ 946	$932	$1,002

In the matter of net results a clearer picture is shown by giving them by quarters for the last three years:

	1937	1938	1939
1st quarter	$ 109,828	$207,097	$109,732
2nd quarter	100,355	176,341	245,271
3rd quarter	846,637	444,816	318,855
4th quarter	528,116	154,059	304,778
Year	$1,365,280	$982,313	$369,080

You will be impressed by the fact that there is an evident turn for the better in our business. While in part this is due to generally improved conditions, we know it is due also to a better job on the part of our employees. There is a smoothness, an efficiency, and a zest not evident in the preceding year. We have reason to be very hopeful that 1940 will show better results than 1939. The first four weeks of the new year show an increase of 15% in our sales, after adjustment for the department store figures referred to.

Repairs, mostly in stores, have amounted to $557,655, all of which was taken up in the expenses of the year. A large part of this amount—at least $200,000—was due to previous neglect and does not properly belong in the expenses for 1939.

During the year we expended $298,818 in new equipment of all sorts, including new trucks costing $100,000.

We bought no real estate, but sold four properties for a total of $70,162. We have been disappointed at how little we have been able to sell, but have not considered it wise to dispose of more at the extremely low prices offered. However, we expect to continue selling our properties, retaining leases on stores, at prices that should net the purchasers very good incomes.

Of the 1,073 stores we now operate, 180 are in buildings owned by us. The leases of the remaining 893 are divided in terms of years as follows: 619—one year or less; 202—one to three years; 34—three to five years; 38—in excess of five years.

Our depreciation on buildings and equipment of all sorts was taken at the same rates as in previous years.

Commitments for merchandise beyond our current needs are no greater than they were a year ago—that is, not in excess of $100,000.

During the year we closed 59 stores and opened 29, leaving a total of 1,073 on January 1, 1940, as compared with 1,103 on January 1, 1939. At the end of the year we had 6,030 employees, exclusive of the extra Saturday help in the stores, as compared with 5,930 at the beginning of the year.

Our working capital, while it has slightly increased, is not yet sufficient to enable us to do some things we might like to do, but that also teaches us thrift and prevents us from making the mistakes that sometimes arise from having too much money.

Our president, Mr. Frederick H. Massmann, resigned on October 1 to associate himself with the Peter Fox Brewing Company. He had loyally served this company for many years and our best wishes went with him.

It is no mere gesture to say that it is the organization that makes a business. We are entirely conscious of it in this company, and are directing our efforts to the end that our employees may find the company not only an attractive one to work for but one in which those with ambition will be given ample opportunity to show what they are good for. We have refrained from going outside of the company to fill the better positions—believing that an organization of this size can produce the necessary individuals to fill them. This brings about a feeling in the minds of the employees that nothing can hold them back but themselves. Not buildings, fixtures, nor stocks of goods, but the men and women in it, make this business, and to them credit is due for whatever hopeful aspects our situation now bears.

By order of the Board of Directors,

John McKinlay

CHAIRMAN

February 26, 1940

Consolidated

DECEMBER 31,

Assets

	Dec. 31, 1939	*Dec. 31, 1938*
CURRENT ASSETS:		
Cash	$ 1,677,404.54	$ 1,354,251.24
Accounts receivable—		
Trade	$ 233,645.47	$ 241,588.42
Due from relief agencies	191,444.09	166,607.77
Other	51,888.54	43,089.05
	$ 476,978.10	$ 451,285.24
Less: Reserve for bad debts	66,917.95	67,787.20
	$ 410,060.15	$ 383,498.04
Inventories, at lower of cost or market—		
Merchandise	$ 3,694,007.39	$ 3,777,999.95
Supplies	144,929.27	151,349.38
	$ 3,838,936.66	$ 3,929,349.33
Total current assets	$ 5,926,401.35	$ 5,667,098.61
OTHER ASSETS:		
Notes receivable (less reserve of $2,856.59 at December 31, 1939)	$ 4,027.71	$ 3,462.51
Due from employes for cars purchased from company	1,132.32	17,905.91
Mortgages receivable	32,460.12	17,019.62
Investments	1,634.00	4,022.63
Notes receivable—officer (secured by 4,500 shares of National Tea Co. preferred stock)	None	12,500.00
Officers' stock subscription contracts	None	26,499.46
	$ 39,254.15	$ 81,410.13
FIXED ASSETS—At cost, except buildings (The net value of buildings was written down against earned surplus in 1935. This write-down as to buildings owned at December 31, 1939 amounts to $1,091,774.77):		
Land	$ 3,379,139.89	$ 3,420,116.15
Leaseholds and improvements, being amortized	$ 119,692.91	$ 125,078.48
Buildings	$ 4,931,779.42	$ 4,981,609.41
Less: Reserve for depreciation	1,768,475.31	1,635,415.54
	$ 3,163,304.11	$ 3,346,193.87
Store fixtures and equipment	$ 5,647,256.65	$ 5,913,595.28
Less: Reserve for depreciation	4,280,186.90	4,272,433.07
	$ 1,367,069.75	$ 1,641,162.21
Machinery, fixtures and equipment	$ 1,767,076.48	$ 1,803,081.94
Less: Reserve for depreciation	1,508,611.35	1,481,686.54
	$ 258,465.13	$ 321,395.40
Delivery equipment	$ 742,929.32	$ 730,475.44
Less: Reserve for depreciation	597,280.79	629,910.06
	$ 145,648.53	$ 100,565.38
Total fixed assets	$ 8,433,320.32	$ 8,954,511.49
GOOD WILL	$ 1.00	$ 1.00
DEFERRED CHARGES:		
Prepaid rents, taxes, insurance, etc	$ 100,302.81	$ 111,817.87
	$14,499,279.63	$14,814,839.10

Balance Sheet

1939 AND 1938

Liabilities

	Dec. 31, 1939	Dec. 31, 1938
CURRENT LIABILITIES:		
Notes payable—		
Banks	$ 350,000.00	$ 500,000.00
Nateco Realty Trust	None	30,918.60
Real estate mortgage	30,631.54	34,250.00
	$ 380,631.54	$ 565,168.60
Accounts payable—		
Trade, etc	$ 1,360,339.03	$ 1,285,290.74
Commercial letters of credit secured by merchandise	123,236.45	91,837.12
Accrued expenses:		
Pay roll and commissions	108,420.89	40,838.49
Taxes	672,982.22	689,159.35
Interest	8,297.04	7,315.85
Employes' deposits	4,184.83	4,299.77
	$ 2,277,460.46	$ 2,118,741.32
Total current liabilities	$ 2,658,092.00	$ 2,683,909.92
REAL ESTATE MORTGAGES:		
Due serially before December 31, 1945	$ 255,625.62	$ 220,000.00
Due after December 31, 1945	350,537.37	293,750.00
	$ 606,162.99	$ 513,750.00
ACCOUNT PAYABLE (Re store lease cancelled):		
Payable $3,000 per annum from January 2, 1941 to August 1, 1948	$ 23,000.00	$ 26,000.00
RESERVE FOR CONTINGENCIES (SELF INSURANCE)	$ 83,889.93	$ 67,464.52
CAPITAL STOCK:		
Preferred, 5½% cumulative, par value $10, redeemable at par on call or liquidation—	*Shares*	
Authorized and issued	200,000 200,000	$ 2,000,000.00 $ 2,000,000.00
Less: Held in treasury	56,893 54,243	568,930.00 542,430.00
Outstanding	143,107 145,757	$ 1,431,070.00 $ 1,457,570.00
Common, no par value—		
Authorized	800,000 800,000	
Issued	660,000 660,000	$ 8,250,000.00 $ 8,250,000.00
Less: Held in treasury	37,350 37,350	466,875.00 466,875.00
Outstanding	622,650 622,650	$ 7,783,125.00 $ 7,783,125.00
		$ 9,214,195.00 $ 9,240,695.00
SURPLUS, PER STATEMENT ATTACHED:		
Paid-in	$ 69,398.05	$ 69,398.05
Earned—		
Restricted by reason of purchase of treasury stock	966,406.95	939,906.95
Unrestricted	878,134.71	1,273,714.66
	$ 1,913,939.71	2,283,019.66
	$14,499,279.63	$14,814,839.10

Dividends on preferred stock are in arrears from November 1, 1937 in the amount of $1.19 per share and $170,536 in total.

Consolidated Statement of Income and Surplus

FOR THE YEARS ENDED DECEMBER 31, 1939 AND 1938

	Year ended December 31	
	1939	*1938*
Sales	$56,824,450.39	$55,545,216.07
Deduct:		
Cost of sales and expenses (note)	$56,480,510.01	$55,783,314.08
Depreciation	708,456.21	787,590.80
	$57,188,966.22	$56,570,904.88
Net operating (*loss*)	*$ 364,515.83*	*$ 1,025,688.81*
Deduct:		
Dividends received from investments—		
Nateco Realty Trust	$ None	$ 25,000.00
Sundry	81.91	102.67
	$ 81.91	$ 25,102.67
Profit or (*loss*) on disposal of fixed assets	*5,341.91*	14,590.27
Refunds of processing taxes	695.88	11,316.45
	$ 4,564.12	$ 51,009.39
	$ 369,079.95	*$ 974,679.42*
Add:		
Provision for additional federal income tax 1933	None	7,633.80
Net (*loss*) transferred to surplus	*$ 369,079.95*	*$ 982,313.22*
Earned surplus at beginning of year	2,213,621.61	3,246,934.83
	$ 1,844,541.66	$ 2,264,621.61
Deduct:		
Amount paid under National Labor Relations Board award	None	51,000.00
Earned surplus	$ 1,844,541.66	$ 2,213,621.61
Paid-in surplus, being excess of par or stated value of treasury stock over cost	69,398.05	69,398.05
Surplus as per balance sheet	$ 1,913,939.71	$ 2,283,019.66

Italic figures indicate loss

Note: Includes rent received for space not used by the company in store properties owned or leased, amounting to $199,835.45 in 1939 and $205,458.63 in 1938, before deducting depreciation, taxes, rent paid and other expenses applicable to this space.

Auditor's Certificate

TO THE STOCKHOLDERS,
NATIONAL TEA CO.,
CHICAGO, ILLINOIS.

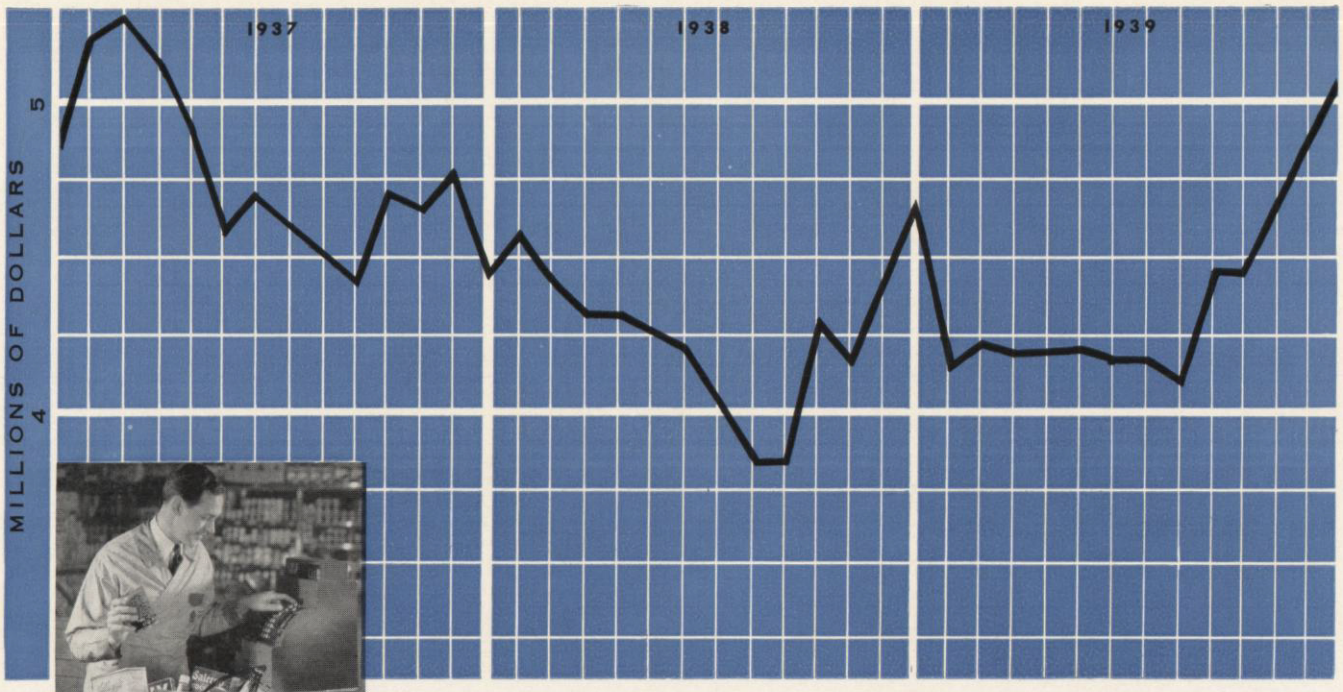
We have examined the consolidated balance sheet of National Tea Co. (Illinois Corporation) and subsidiaries as of December 31, 1939 and the consolidated statement of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion, the accompanying consolidated balance sheet and related consolidated statement of income and surplus present fairly the consolidated position of the companies at December 31, 1939 and the results of their operations for the year ended that date in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

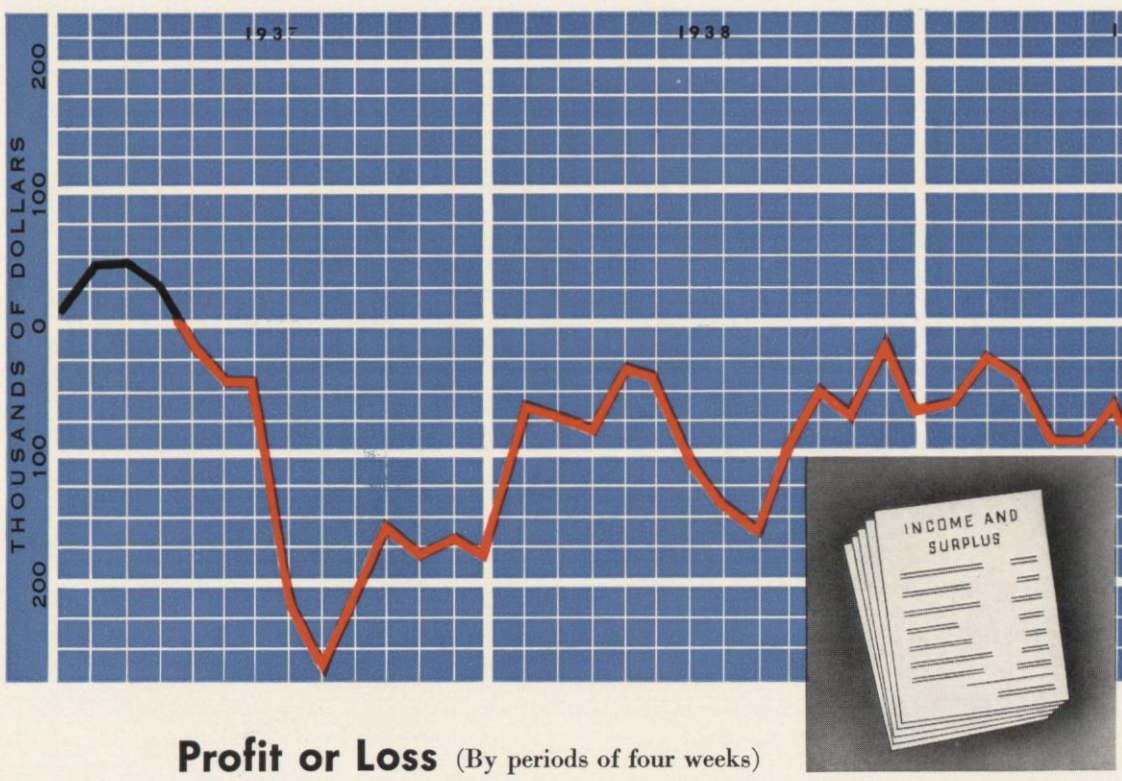
We had previously made an examination of the accompanying consolidated balance sheet as at December 31, 1938 and the consolidated statement of income and surplus for the year ended that date which are presented for the purpose of comparison.

ARTHUR YOUNG & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

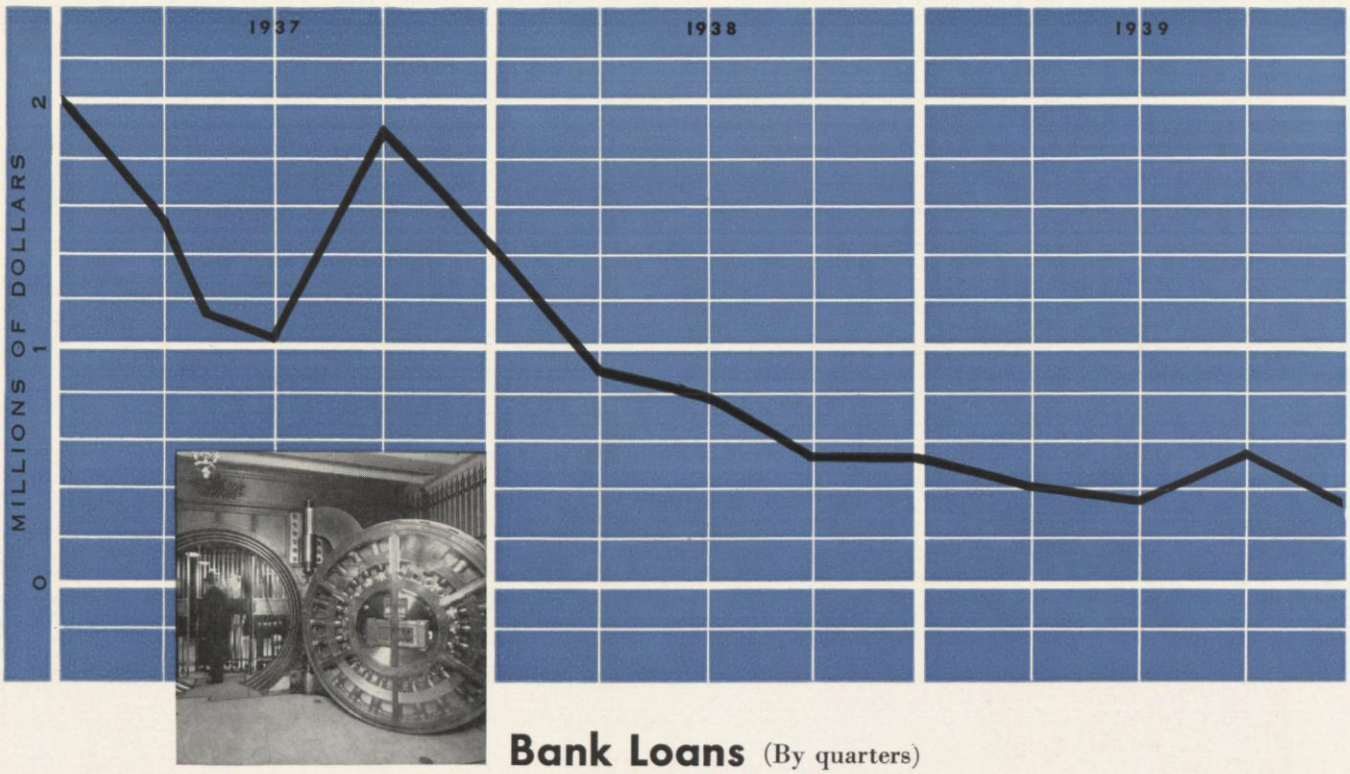
Chicago, Illinois,
February 15, 1940.



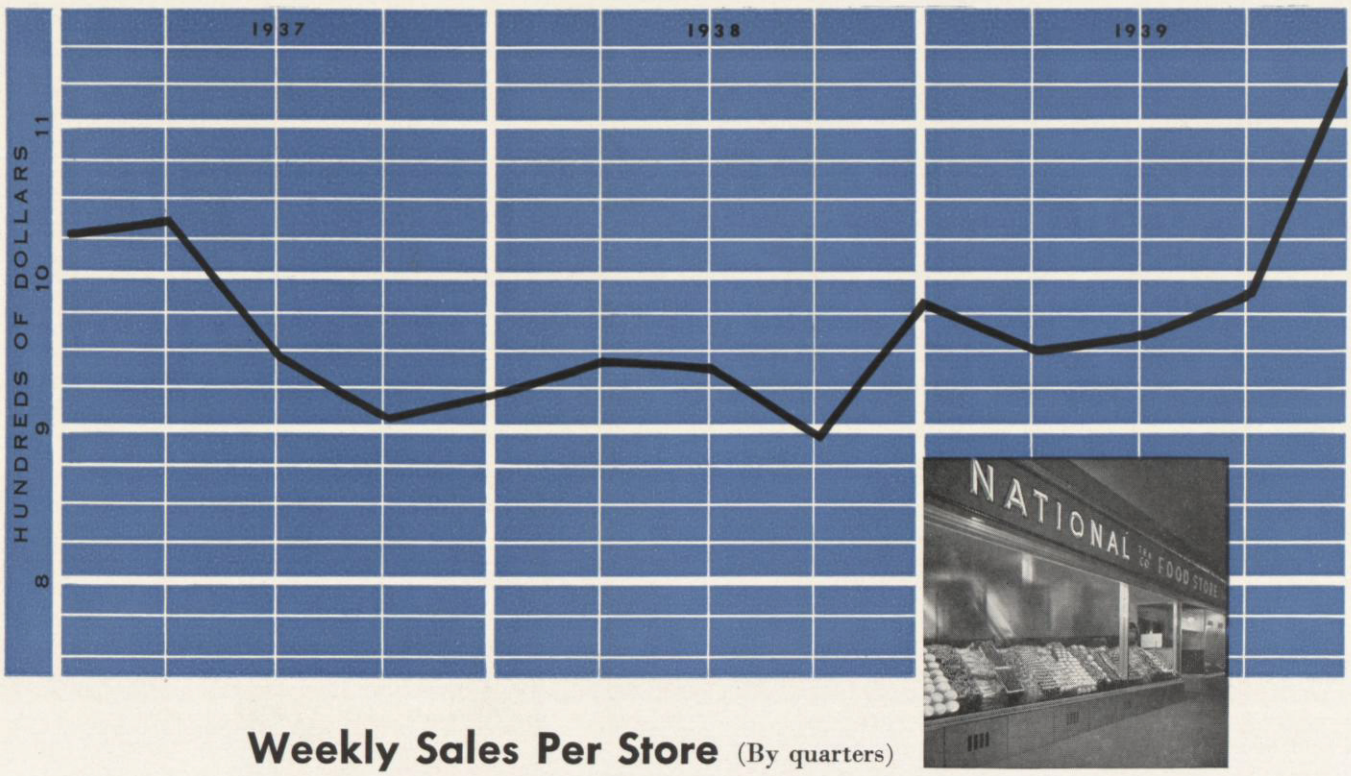
Sales (By periods of four weeks . . . thirteen periods to the year)



Profit or Loss (By periods of four weeks)



Bank Loans (By quarters)



Weekly Sales Per Store (By quarters)

National Tea Co.

DIRECTORS

John McKinlay

Joseph L. Merrill

George Rasmussen, Jr.

Robert V. Rasmussen

William E. Russell

Judson F. Stone

OFFICERS

John McKinlay
Chairman

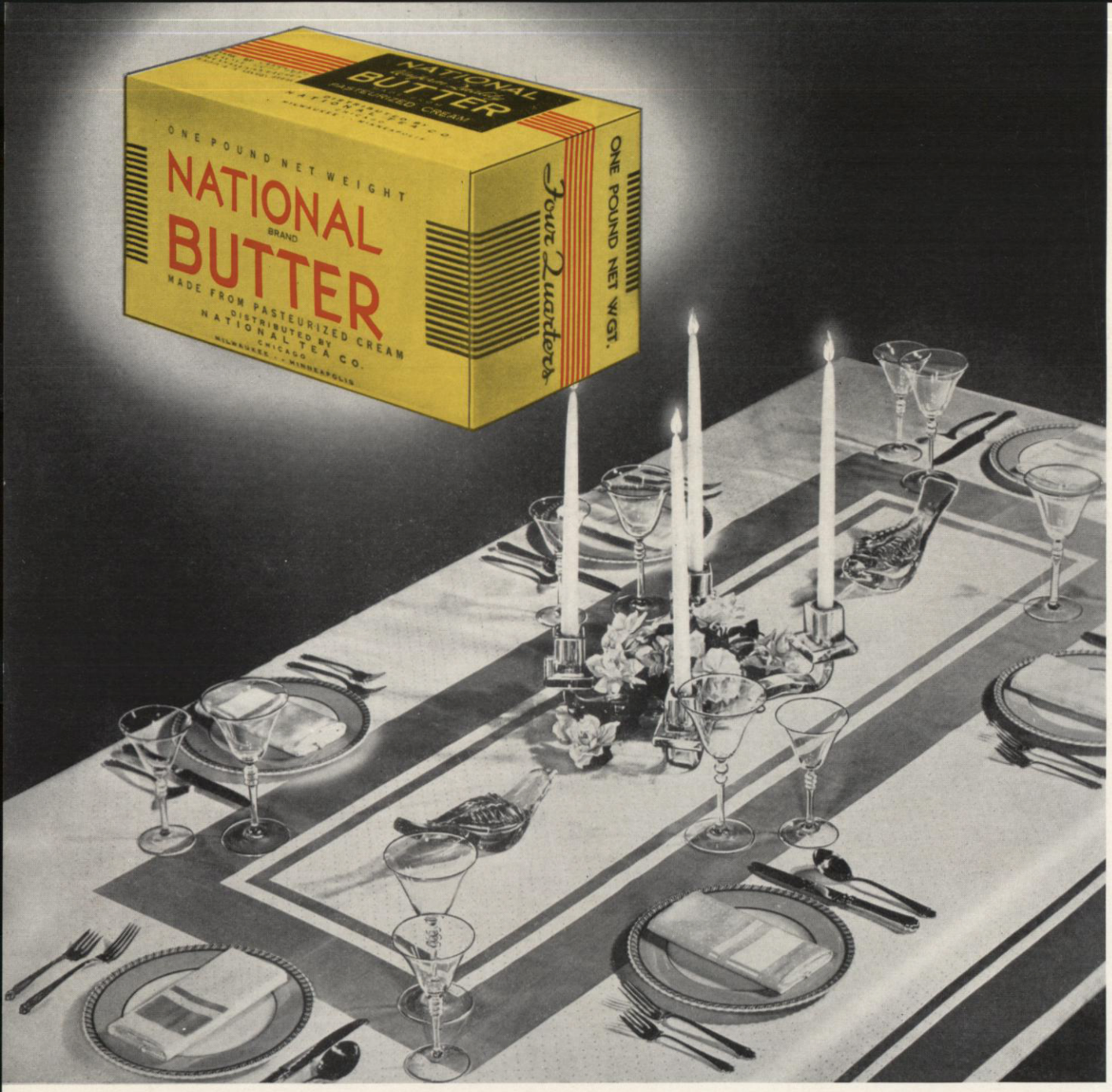
Burt J. Dickens
Vice President

Th. Rasmussen
Treasurer

Robert V. Rasmussen
Vice President

William E. Russell
Secretary-Comptroller

Son of Founder Waits on National Tea Company's First Customer—
Forty years ago Mrs. Mary Shaw made the first purchase from George Rasmussen at the first National Tea store. Forty years later, early December of 1939, climaxing the 40th Anniversary celebration Mrs. Shaw purchased her grocery needs from George Rasmussen, Jr. as she had from his father two score years before. While this incident is of unimportance to the world at large, it is of great significance to National's employees. Public acceptance, as reflected in year in and year out patronage, is an invaluable and, frequently, irreplaceable asset.



National Butter Symbolizes Quality of National Tea Co. Products —

National Butter is typical of the excellent quality merchandise purveyed in National Stores. For 40 years National Butter has been synonymous with all that is good and fine in food products. Careful effort has been made to maintain the same high quality standard in all merchandise distributed by National Food Stores.

Color Page

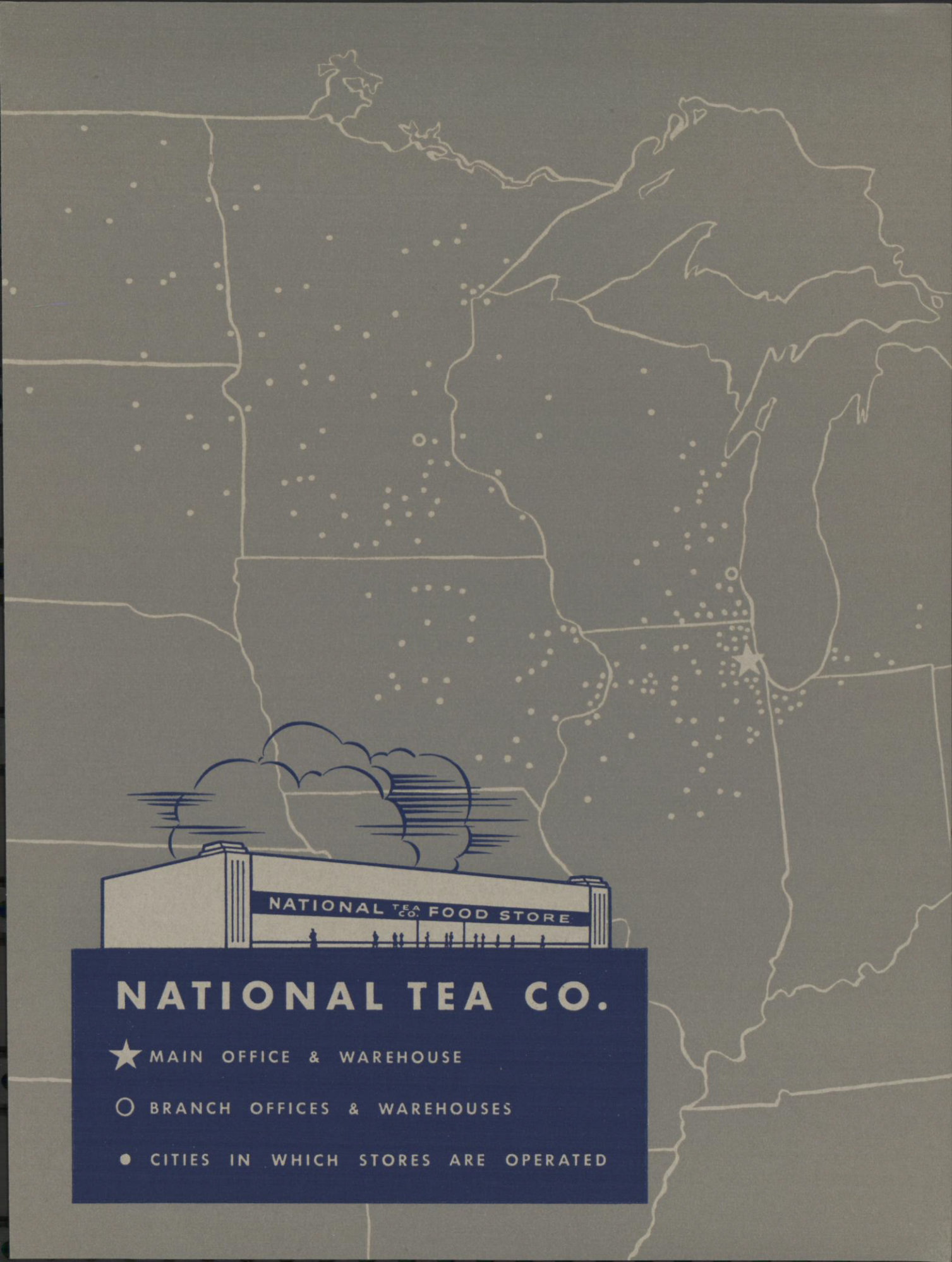
Advertising

Institutionalizing

a Middle West

Institution

Newspaper advertising for the year was climaxed by four-color ads—one published before Thanksgiving and the other immediately prior to Christmas. This advertising timely epitomized several all-important fundamentals of the business, namely, fine quality merchandise, reasonable low prices, helpful, courteous service. Acceptance of both advertisements was very good.



NATIONAL TEA CO.

★ MAIN OFFICE & WAREHOUSE

○ BRANCH OFFICES & WAREHOUSES

● CITIES IN WHICH STORES ARE OPERATED